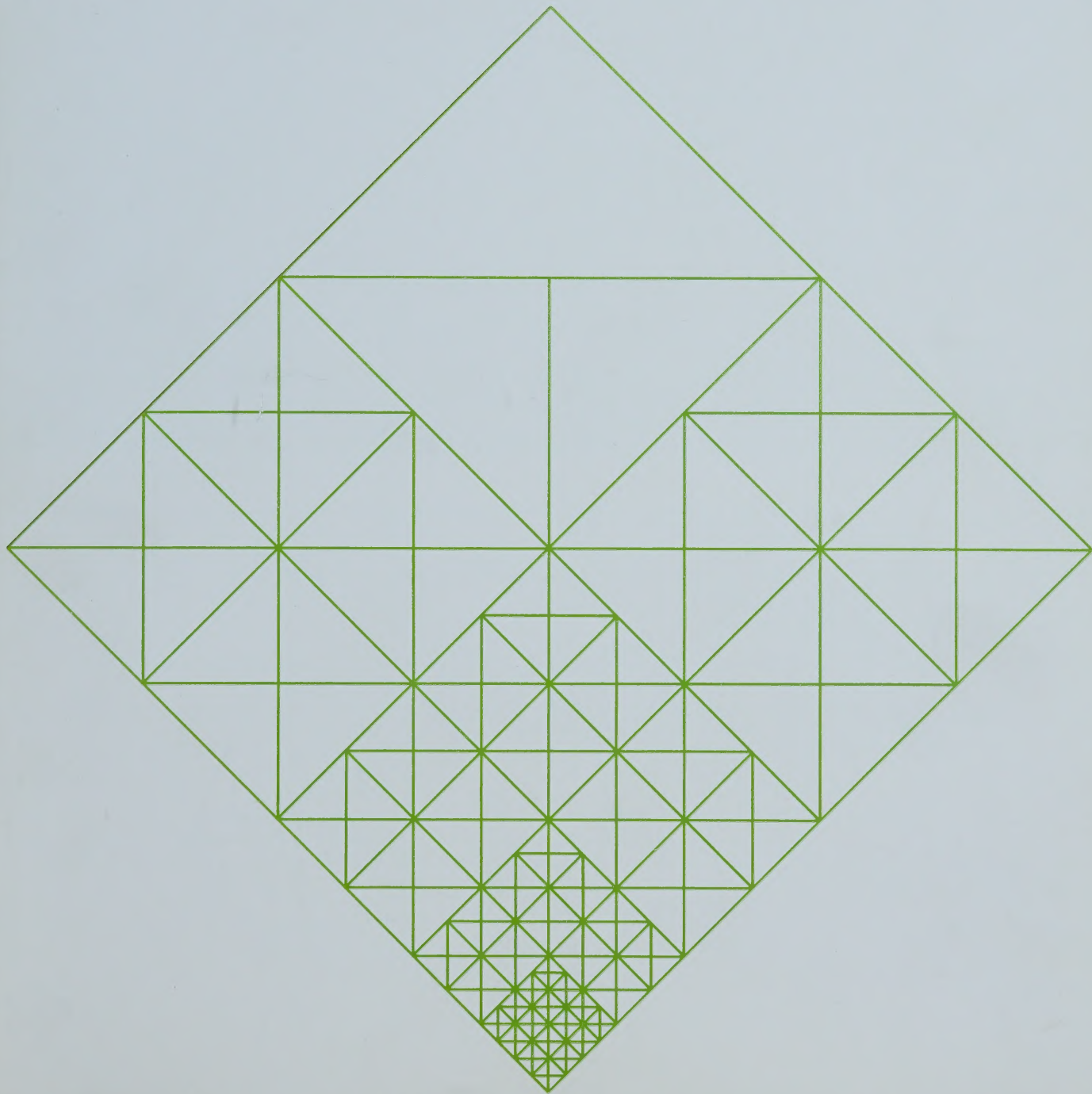


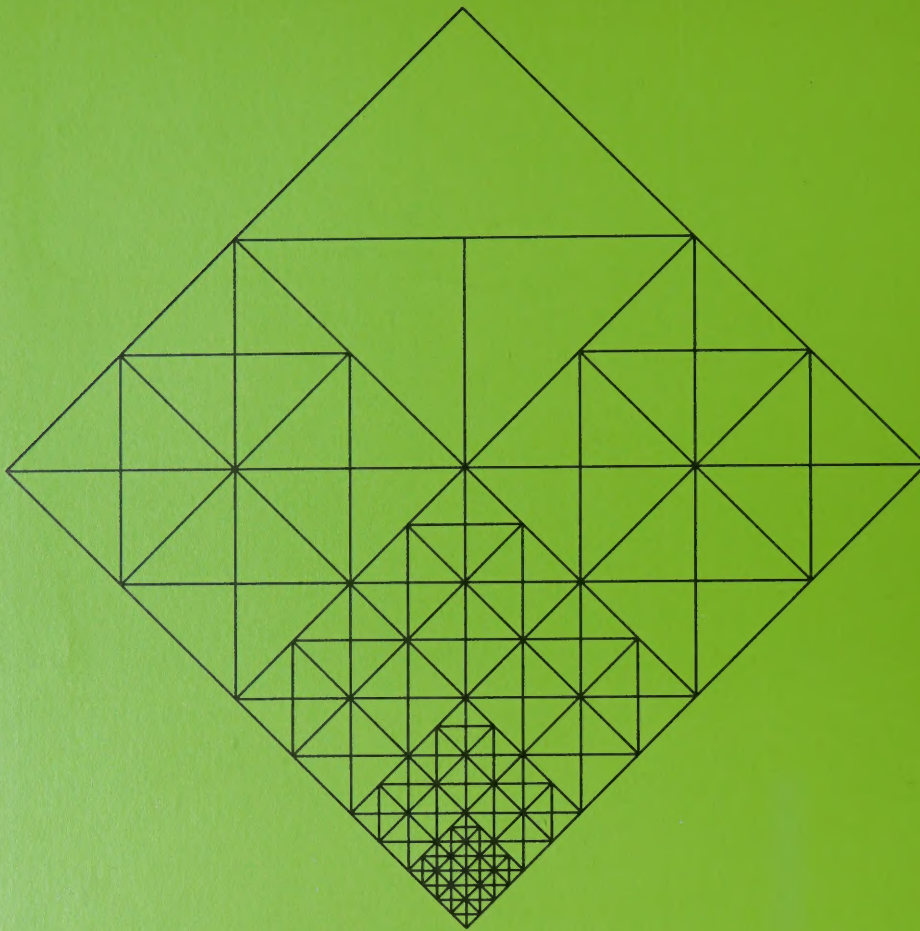
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GAMBLE-SKOGMO, INC.

ANNUAL REPORT 1966





Directors

B. C. Gamble	L. E. Dolan	B. L. Robbins
C. C. Raugust	R. W. Jackson	H. C. Stephens
W. P. Berghuis*	A. G. Johnson	A. D. Walker
B. F. Davidson	A. G. Kirkness	H. W. Zinsmaster
W. H. Davies, Jr.		

Officers

B. C. Gamble, Chairman of the Board	W. H. Lollar, Vice President
C. C. Raugust, President	E. C. Moore, Vice President for Mass Merchandising
W. P. Berghuis*, Senior Vice President & Secretary	D. W. Olson, Vice President
A. C. Burkhardt, Vice President	A. Peterson, Vice President for Operations
B. F. Davidson, Vice President	H. C. Stephens, Vice President
W. H. Davies, Jr., Vice President & Treasurer	G. R. Worley, Vice President
L. E. Dolan, Vice President & Secretary	G. S. Younger, Vice President for Sales
H. J. Frommelt, Vice President for Public Relations	G. D. Anderson, Assistant Vice President
P. L. Gnam, Vice President for Personnel	P. R. Runeberg, Controller
J. P. Goan, Vice President	P. N. Johnson, Assistant Controller
R. W. Hill, Vice President	G. A. Kaiser, Assistant Controller
W. T. Hill, Vice President	P. T. Mucke, Assistant Secretary
A. G. Johnson, Vice President for Merchandising	N. M. Steck, Assistant Treasurer

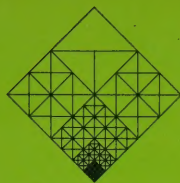
*Retired January 31, 1967

Transfer Agent

First National City Bank, 55 Wall Street, New York, N. Y. 10015

Registrar

The Chase Manhattan Bank, 1 Chase Manhattan Plaza, New York, N. Y. 10015



Know Your Company!

ITS SIZE—ITS PEOPLE—ITS ACTIVITIES
Why not put this card in your wallet now

GAMBLE-SKOGMO, INC. FACTS

As of January 31, 1967

Sales and Profits:

Net Sales.....	\$682,365,336
Earnings before Income Taxes.....	\$ 25,688,037
Income Taxes.....	\$ 13,022,770
Total Net Earnings.....	\$ 12,665,267
Net Earnings Per Common Share.....	\$ 3.06

Other Significant Information:

Inventories.....	\$162,742,874
Net Working Capital.....	\$198,849,423
Current Ratio.....	2.43 to 1
Stockholders' Equity.....	\$151,725,335
Book Value Per Common Share.....	\$ 25.55
Book Value Per Common Share Assuming Conversion of Preferred Stock.....	\$ 29.99

Shareholders:

Number of Shareholders.....	16,476
Shares Outstanding.....	3,088,966
Dividends Paid.....	\$ 7,058,288
Dividends Per Common Share (at the annual rate of).....	\$ 1.30



On Our Cover

Gamble-Skogmo's widespread merchandising operations can be considered from many points of view. The economist views it as a vehicle for bringing supply together with demand. The consumer sees it as a means for satisfying his personal needs and desires.

A designer, however, visualizes the company as an orderly system of interrelationships such as that symbolized by the schematic drawing appearing on our cover and throughout this report.

In one sense, the geometric lines and forms connote the complex but orderly structure of management responsibilities throughout the organization which extend from the Board of Directors to the store managers and franchise store owners. Further, the design represents the coordinated functioning of Gamble-Skogmo's diversified merchandising elements within the framework of the overall enterprise.

In keeping with this concept, key members of the management team are featured in this year's Annual Report.

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3 Letter to Stockholders
5 Review of the Year
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29 Consolidated Statement of Retained Earnings and Statement of Source and Application of Funds
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Principal Offices (inside back cover)

Annual Meeting, fourth Friday in June



GAMBLE-SKOGMO, INC.

Dear Shareholders and Employees:

By popular request we have again this year included this wallet-size fact card with your 1966 Annual Report.

The attached card has been prepared as a convenient source of information of Gamble's Highlights for 1966 and will be helpful when answering questions about your company.

Earl E. Raugust PRESIDENT

OUTLETS

Company-owned Stores..... 689
 Company-owned Catalog Offices... 119
 Franchised Dealers..... 3,104
 Total Outlets..... 3,912
 Warehouses..... 23

Gamble-Skogmo, Inc. has increased its total retail outlets from 2,269 in 1961 to a total of 3,912 in 1966. Net sales in 1961 were \$139,-780,000 and in 1966 exceeded \$682,000,000. We operate in 37 states and in all provinces in Canada as follows:

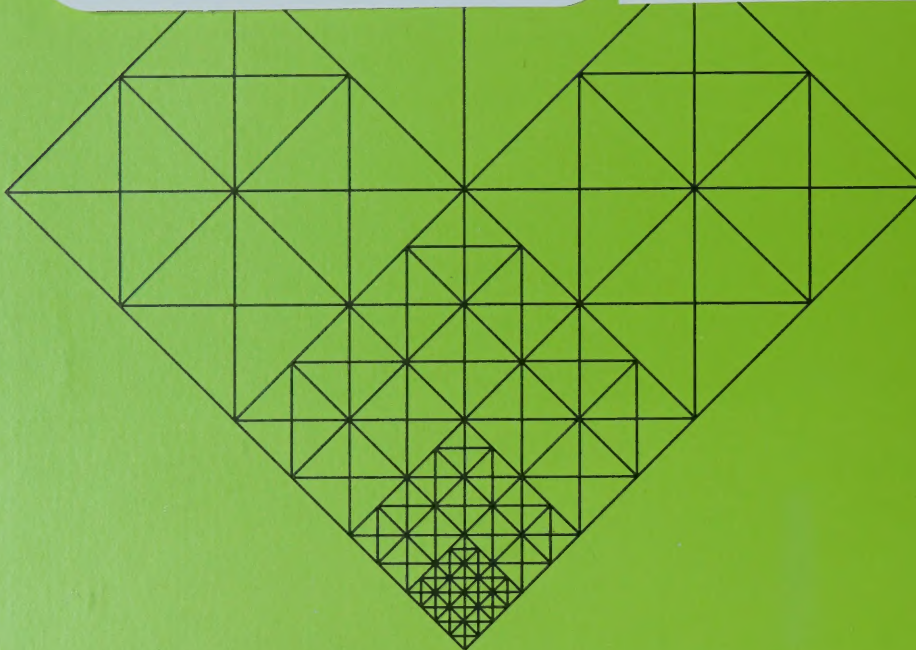
IN THE U.S.A.

Gamble Stores and Franchised Dealers
 Gamble Department Stores
 Skogmo Franchised Dealers
 Tempo Department Stores
 Cussins & Fearn Stores
 Buckeye Marts
 Rascos Variety Stores and Franchised Dealers
 Mode Jewelry Stores and Franchised Dealers
 Alden Telephone Offices
 Department Stores (Aldens)
 Shoppers World Department Stores
 Eisen Stores and Franchised Dealers

IN CANADA

Macleods Stores and Franchised Dealers
 Steedmans Stores and Franchised Dealers
 Clark's Gamble Limited Stores
 Marshall Wells Stores and Franchised Divs.

EMPLOYEES..... 22,804



Directors

B. C. Gamble
 C. C. Raugust
 W. P. Berghuis*
 B. F. Davidson
 W. H. Davies, Jr.

L. E. Dolan
 R. W. Jackson
 A. G. Johnson
 A. G. Kirkness

B. L. Robbins
 H. C. Stephens
 A. D. Walker
 H. W. Zinsmaster

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 C. C. Raugust, President
 W. P. Berghuis*, Senior Vice President & Secretary
 A. C. Burkhardt, Vice President
 B. F. Davidson, Vice President
 W. H. Davies, Jr., Vice President & Treasurer
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 H. J. Frommelt, Vice President for Public Relations
 P. L. Gnam, Vice President for Personnel
 J. P. Goan, Vice President
 R. W. Hill, Vice President
 W. T. Hill, Vice President
 A. G. Johnson, Vice President for Merchandising

W. H. Lollar, Vice President
 E. C. Moore, Vice President for Mass Merchandising
 D. W. Olson, Vice President
 A. Peterson, Vice President for Operations
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 G. R. Worley, Vice President
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 G. D. Anderson, Assistant Vice President
 P. R. Runeberg, Controller
 P. N. Johnson, Assistant Controller
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 P. T. Mucke, Assistant Secretary
 N. M. Steck, Assistant Treasurer

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On Our Cover

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 Principal Offices (inside back cover)

Annual Meeting, fourth Friday in June

	1966 ⁽¹⁾	1965 ⁽¹⁾
Net Sales Including Leased Departments.....	\$682,365,336	\$608,243,214
Earnings before Income Taxes.....	25,688,037	24,519,383
Provision for Federal, State and Canadian Income Taxes.....	13,022,770	11,980,773
Net Earnings (3).....	12,665,267	12,538,610
Per Share of Common Stock (2) (3).....	3.06	3.03
Dividends Paid—Cash.....	7,058,288	5,426,060
Per Share of Common Stock.....	1.25	1.20
Stockholders' Equity.....	151,725,335	145,953,059
Net Working Capital.....	198,849,423	167,593,556

Financial Highlights

- (1) See Note (1) of notes to consolidated financial statements.
- (2) Based on common shares outstanding at end of each year.
- (3) Excludes special credits of \$285,185 or \$.09 per common share in 1965.



To Our Stockholders

The year 1966 was the first period to reflect in any full measure our company's vastly increased stature and scope of merchandising activities resulting from the addition of Aldens and Founders, and the consolidation of Marshall Wells into Gamble-Skogmo, Inc. Within the two brief years encompassed by these developments, sales were added by a very substantial amount; the number of employees rose from 7,400 to nearly 23,000; and the number of retail outlets owned or associated with the Gamble-Skogmo organization increased by 1,400, or nearly 60 percent. As against 23 essentially mid-western states, the company's marketing territory in the United States now covers 37 states from the Mexican to the Canadian borders. In addition, operations in all provinces of Canada have been greatly enlarged.

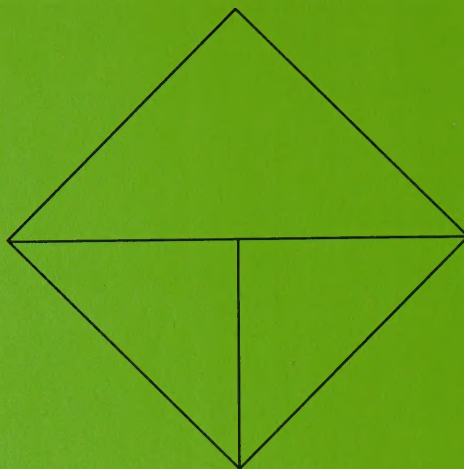
Although 1966 was a year of uncertainty in some key elements of the economy, it is a source of pride that our company

achieved further market penetration and a consequent growth in sales and net income in virtually every area of its operations. Sales increased by 7.6 percent on a comparable basis, and total net income, excluding special credits, exceeded that of a year ago. Despite rising costs and expenses, including labor and interest costs, operating income from fully comparable sources was approximately 16 percent above that of a year ago, since the previous year's income included dividends amounting to 67 cents per share from a then unconsolidated affiliate, a major portion of which represented prior years' earnings.

Of greater intermediate and longer range significance, however, was the substantial progress achieved in creating a stronger organization, in improving operating methods and in the better utilization of human resources to meet the challenge of the enlarged Gamble-Skogmo organization.

Left to right, B. C. GAMBLE, Chairman of the Board
C. C. RAUGUST, President

continued on next page



To Our Stockholders *continued*

Primary in importance was the realignment of the corporate functions and redefinition of responsibilities to meet more completely the requirements of our greatly expanded operations, including the assignment of key personnel to positions of new authority. A program for the establishment of centers of profit accountability was initiated with the effect of intensifying initiative at all levels, while permitting more sharply defined executive and supervisory controls.

The use of electronic computers and communication equipment is being continually expanded into new areas. Our increasing use of management science techniques, based upon a management information system, should make substantial contributions toward sustaining our rate of continued profit growth.

Aware of today's ferment in retail merchandising, our company has pursued a program of expansion which

has made Gamble-Skogmo one of the nation's leading retail and wholesale organizations. Therefore, although the trend of the national economy is at best uncertain, your management views fiscal 1967 and the years beyond with confidence.

May we take this opportunity to express our appreciation to our employees, franchised dealers and suppliers for their contributions to the year's achievements, and to our stockholders for their loyal interest.

Carl C. Raugust, President

Bertin C. Gamble, Chairman of the Board

March 28, 1967



Review of the Year

CORPORATE MANAGEMENT DEVELOPMENT

To meet the managerial requirements resulting from the company's rapid expansion during the past several years and maximize the opportunities presented by this growth, management functions have been realigned and executive responsibilities have been redefined.

Arnold G. Kirkness was elected a Director of Gamble-Skogmo, Inc. Mr. Kirkness, who joined the company in 1928, is President of Gamble Macleod Limited, having previously served as President of Macleod's Limited from 1958 to 1964.

Louis E. Dolan was elected a Director of the company and, in addition, was elected a Vice President. Mr. Dolan joined the company in January, 1966 after having served as Executive Vice President of Nationwide Corporation, Columbus, Ohio.

Gordon R. Worley, Vice President and Treasurer of Aldens, Inc. since 1957, was made Vice President of the parent company. Mr. Worley has been

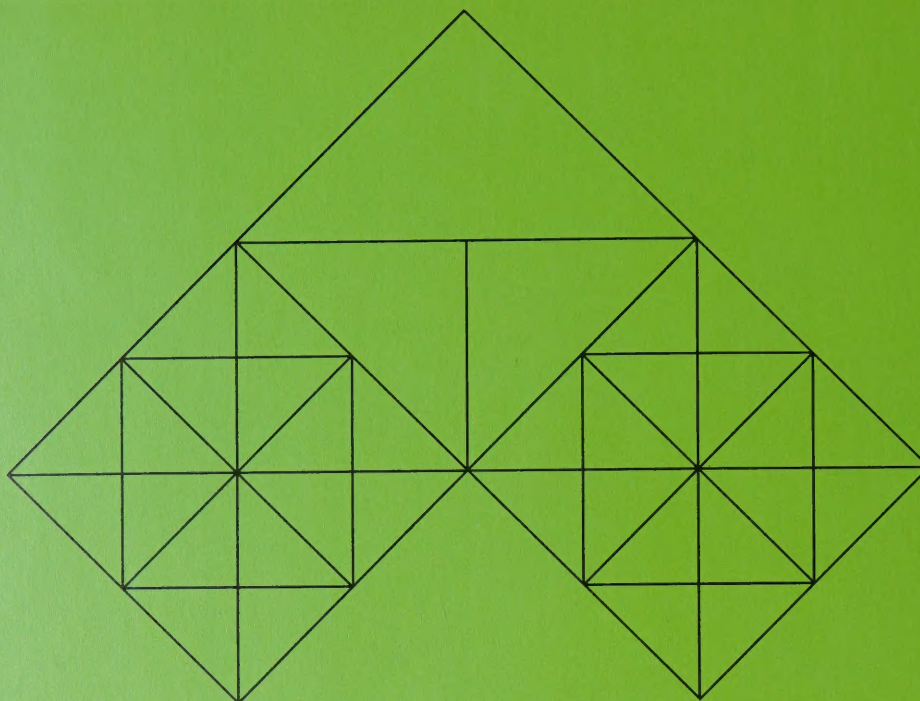
associated with Aldens in various executive capacities since 1940.

Also elected Vice Presidents were Arthur C. Burkhardt, manager of outside sales; J. Philip Goan, in charge of development of the company's financial services; Donald W. Olson, general credit manager; Robert W. Hill, director of hardlines buying; William T. Hill, real estate manager; and William H. Lollar, head of the Rasco Division.

George D. Anderson, group manager for appliances, radio and television sets, toys, wheel goods, housewares and sporting goods, was elected Assistant Vice President and, Norman M. Steck, previously associated with General Outdoor Advertising Co., Inc., was elected Assistant Treasurer of Gamble-Skogmo.

Carle R. Wunderlich was made President of Aldens, Inc., succeeding Robert W. Jackson, who is now Chairman of the Aldens board. Mr. Wunderlich was formerly President, General Manager and a Director of Cussins & Fearn Co. Inc., the company's Ohio subsidiary, and has been associated with that organization since 1947.

Left to right, W. H. DAVIES JR., Vice President, Treasurer and Director;
G. R. WORLEY, Vice President;
L. E. DOLAN, Vice President, Secretary and Director



Review of the Year *continued*

In February, 1967, Andrew C. Shedden was appointed Vice President and Assistant to the President of Aldens, Inc. Mr. Shedden previously served for eleven years with Simpsons-Sears Limited of Canada where he fulfilled various executive responsibilities and was general retail merchandise manager for Canada for that company.

Robert G. Leohner was appointed President of Cussins & Fearn Co. Inc. to replace Mr. Wunderlich. He has been with the Cussins & Fearn organization since 1932 and was previously Vice President and general merchandise manager.

Upon the retirement of Mr. Charles Cressaty, Mr. Icer M. Malouf was named President of the Mode O'Day Division of Gamble-Skogmo. Mr. Malouf has been with Mode O'Day for more than thirty years and has filled various executive positions in that firm.

J. Philip Goan, who was formerly Vice President of J. M. Dain & Co. Inc., joined Gamble-Skogmo in May, 1966. He is a Vice President of the company

and was elected President of Gamble-Alden Securities Inc., the company's newly-formed financial subsidiary.

CENTRAL SERVICE AND CONTROLS AUGMENTED

In keeping with the company's greatly enlarged size and scope of operations as contrasted with but a few years ago, overall corporate services and controls were reorganized and expanded during 1966.

To increase efficiency and effect economies in the buying area, the New York soft goods buying activities of all divisions and subsidiaries were centralized in a single buying office in that city. In addition, Gamble Import Co., with headquarters in Los Angeles, was organized to direct the buying of the rapidly growing volume of imports from the Orient and Europe for the various Gamble-Skogmo subsidiaries and divisions.

Gamble Realty, Inc., in turn, was organized to assist in the development of shopping centers dominated by stores of the company's various divisions and aid in related real estate matters.

Together with Gamble Skogmo Acceptance Corporation, these recently organized service units will provide comprehensive central assistance with respect to the operations of divisions and subsidiaries.

The rapid availability of accurate and complete information to assist in the direction and control of Gamble-Skogmo's widespread and diversified operations was advanced importantly during the past year through a substantially expanded utilization of computers. Introduced several years ago, electronic data processing is being applied to a constantly growing number and variety of operations.

NEW HEADQUARTERS PLANNED

Plans have been completed for the construction of a new central headquarters building in suburban Minneapolis to provide much-needed space for the company's corporate staff, together with key personnel of the company's service organizations, as well as the Gamble, Tempo and Skogmo company-owned and franchised stores personnel. The new headquarters



will also contain the corporate computer center which will maintain a data bank to provide the rapid transmittal of information to management. Ground breaking ceremonies were conducted April 4, 1967 and, the Gamble building is scheduled for completion in June, 1968. The area in which the building will be located has been renamed the Gamble Center.

EXPANDED RETAIL STRUCTURE

Significant additions and improvements were made in 1966 with regard to the company's retail outlet structure.

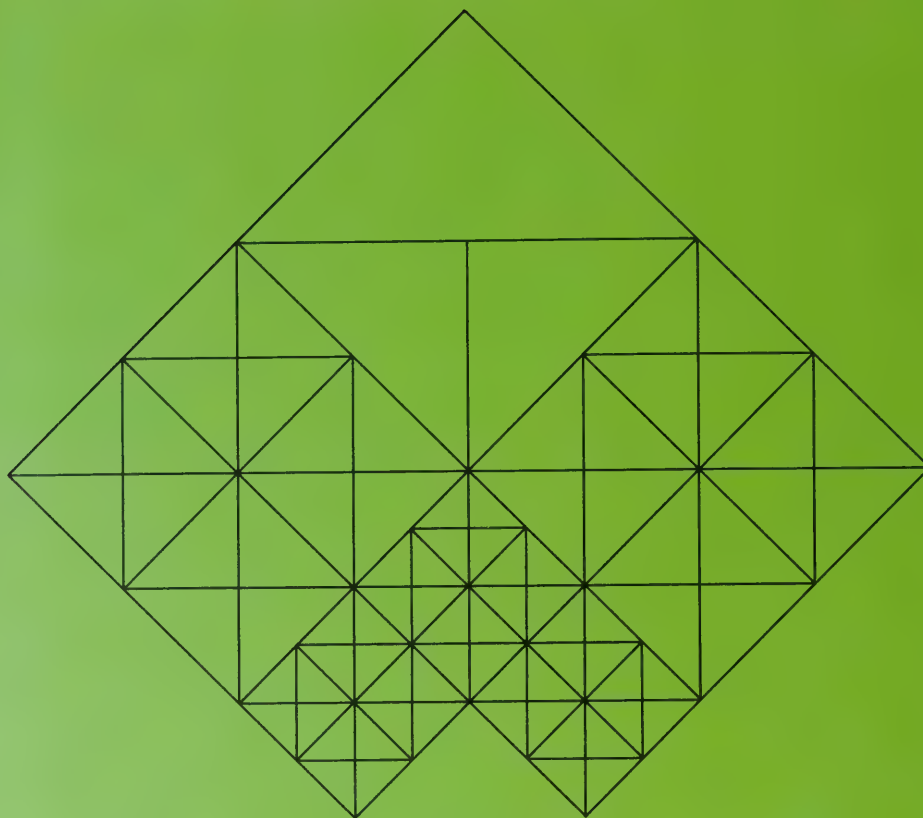
Five new Tempo mass-merchandising self-service family department stores were opened during the year, bringing to fifty the number of Tempo units in operation at the close of the year. Plans currently call for the establishment of seven additional Tempo low margin stores in 1967, five of which are presently under construction. Indicative of the soundness of the Tempo principle is the fact that contributions of the Tempo group to 1966 pre-tax profits were approximately triple those of a year earlier.

The company's wholly-owned Aldens subsidiary opened its fifteenth Shoppers World self-service discount department store and added a 24th well-established concern, Rosenberg's, located in Santa Rosa, California, to its group of conventional department stores.

Cussins & Fearn Co. Inc., the company's Ohio subsidiary, opened its twelfth Buckeye Mart self-service mass-merchandising department store, the fourth such unit in Columbus, Ohio, with a thirteenth Buckeye unit scheduled for opening early in the current year.

The company's Rasco Division, whose Pacific Coast and Mountain State operations have added a higher-than-average income population of approximately 30 million to Gamble-Skogmo's territory, purchased the 89,000 square foot "Bigg and Littell" low margin department store in Stockton, California. Prior to this acquisition, Rasco stores have been substantially smaller units. Present plans, however, call for the establishment of additional larger units as part of the Division's expansion program.

Left to right, R. W. HILL, Vice President;
A. PETERSON, Vice President for Operations;
A. C. BURKHARDT, Vice President;
A. G. JOHNSON, Vice President for Merchandising
and Director;
G. S. YOUNGER, Vice President for Sales



Review of the Year *continued*

Toward the latter part of the year, arrangements were concluded whereby the four Clark's Department Stores in Canada are now wholly-owned and operated by Gamble-Skogmo's Canadian subsidiary, Gamble Macleod Limited, while the six Clark's units located in this country are owned and operated by an unaffiliated concern.

An addition to Gamble-Skogmo's diversified merchandising operations possessing more than ordinary potentialities was the acquisition of all of the stock of Eisen Mercantile, Inc., Kansas City, Missouri, a wholesale-retail marketer and distributor of piece goods and notions, principally for the home sewing field. With sales at an annual rate of about \$9 million at the time of acquisition, Eisen currently operates 30 company-owned and 51 franchised retail units under the "House of Fabrics" name and, in addition, acts as a wholesale supplier for other Midwestern customers. During the past year, it has supplied the piece

goods departments of approximately thirty of Gamble-Skogmo's stores with this high margin type of merchandise. On the basis of this experience and in view of the compatibility of Eisen's merchandise with the business of many of the company's retail outlets, management is of the opinion that a progressively expanded integration of the new wholly-owned subsidiary into overall operations should contribute significantly to future earnings.

The company's Canadian business was at a high level in fiscal 1966, reflecting continued growth of personal income in that territory, as well as the results achieved from the continuing upgrading of stores and expansion of merchandise lines.

During the year, the program to enlarge retail premises in the Stedman variety chain to accommodate the variety department store image was continued. Seven stores were enlarged and three new ones opened, the largest of these being 40,000 square feet. This brings to a total of 24 the stores now operating as variety department stores located

in towns or suburban shopping centers throughout Canada in addition to 122 variety stores. In all of the enlarged and new stores lunch counters or cafeterias have been installed, and this program is now operating in thirty retail units. Three new stores are being planned for the coming year, and five outlets will be enlarged. Four of these operations will be variety department stores.

Franchised outlets of Stedmans carry expanded lines including such items as automotive supplies, appliances, heavier power tools and hardware, and sporting goods. Several franchised units were enlarged during the year to the level of variety department store operations, with the largest being 30,000 square feet.

The Macleod Division continued its program of family shopping center department store development in its merchandising operations through the enlargement or relocation of sixteen existing stores and the establishment of eight new larger units. As a result, productive selling space increased to 978,000 square feet, a 12 percent increase following a 15 percent



expansion a year earlier. It is anticipated that over the period 1965-1970, productive space of Macleods company-owned outlets will increase 60 percent and that approximately fifty units will have been expanded on the pattern established the past several years.

Merchandise lines in the Macleod Division have also been broadened with regard to many of the company's franchised dealers as part of the continuing program of assisting these independent entrepreneurs to increase sales volume and profit. Six new franchise stores were opened during the year, and ten stores were modernized and enlarged.

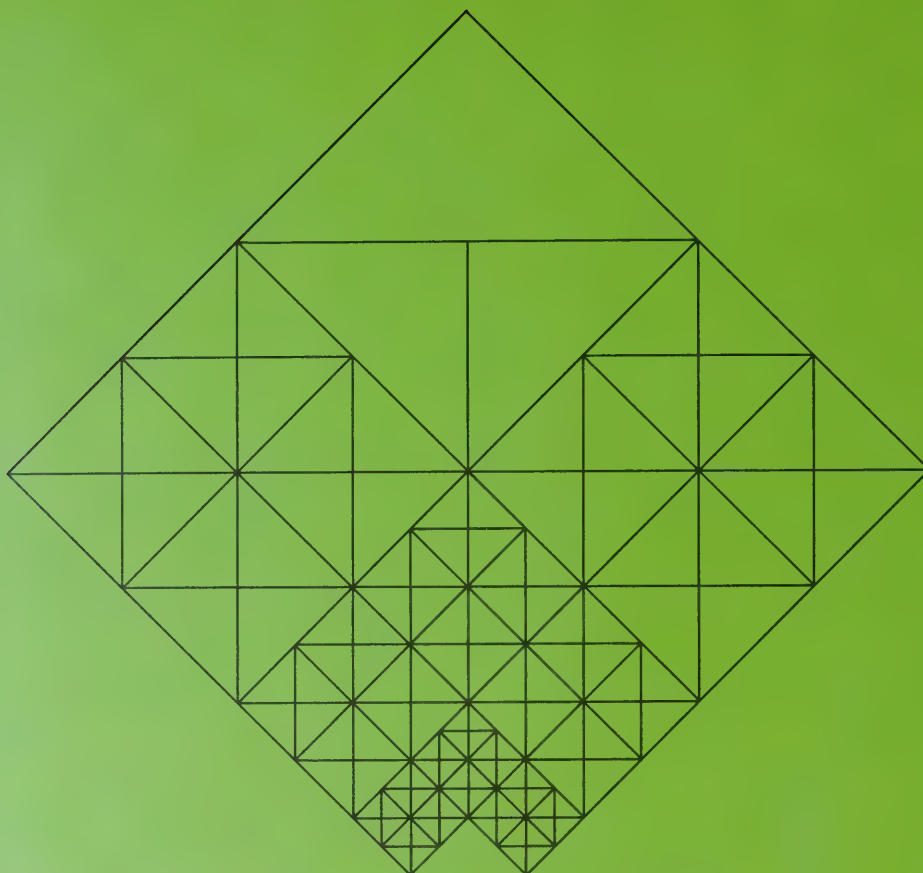
In Marshall Wells Limited, the pattern of expansion and growth continued to accelerate. During the year, twelve new franchises were granted and two new company stores were opened. At the end of the year 283 franchise and 36 company-owned stores were in operation.

This Division entered into the marketing of furniture on a broad scale combined with new and improved merchandising techniques, both of which contributed substantially to better results in the retail stores division. The program initiated in 1965 of warehousing and marketing industrial merchandise has proven a success. Two branch warehouses were converted to specialized industrial supply plants during the year. Continued steps are planned along similar lines for the coming year.

Clark's-Gamble of Canada Limited, operating solely in urban markets, continued to make satisfactory progress. Sales for the year increased 15 percent following a 40 percent increase over the previous year, encouraging expansion plans that have been programmed for 1967.

Gamble Drugs Limited, organized in 1965, made substantial progress in its wholesale drug operations during the year. A program for franchised drug operations was completed which will permit entry of the company into this field early in 1967.

Left to right, W. T. HILL, Vice President;
B. F. DAVIDSON, Vice President and Director;
H. C. STEPHENS, Vice President and Director



Review of the Year *continued*

Growth and improvement in the service company subsidiaries of Gamble Macleod Limited—Macleod's Store Properties Limited and Growth Acceptance Corporation Limited, paralleled performance in the operating companies.

CATALOG OPERATIONS BEING EXPANDED

Following two years of testing, the Gamble-Alden catalog program is currently being expanded to include virtually all trade areas served by the company's Tempo, Gamble and Skogmo stores. Under the program, stores will be supplied with 1,000-page major spring and fall catalogs and eight in-between sales catalogs.

Ordering, delivery and accounting procedures have been materially simplified, and credit customers will have the choice of several plans through which to finance their purchases.

BALANCED AND VERSATILE MERCHANDISING STRUCTURE

Gamble-Skogmo's rapid expansion of the past several years has resulted in a remarkably balanced and versatile merchandising structure, well adapted to take full advantage of trends in the swiftly shifting merchandising field and changes in consumer buying habits. Illustrative of this balance is the fact that, excluding the volume accounted for by variety stores, Gamble-Skogmo sales are presently about evenly divided between its regular stores, mass-merchandising operations, catalog business and sales to franchise dealers. In contrast to several years ago, when emphasis was largely upon hardlines and related merchandise, nearly half of overall sales is now accounted for by softlines.

As of January 31, 1967, Gamble-Skogmo consisted of 578 general merchandise and variety stores, 87 mass-merchandising self-service department stores, 24 conventional department stores, 119 catalog stores and offices, and 3,104 authorized franchised dealers, for a total of 3,912 outlets.

SALES APPROACH \$700 MILLION

Consolidated net sales, including leased departments, of \$682,365,336 for fiscal 1966 (ended January 31, 1967) reached a new record level and, on a fully comparable basis, were 7.6 percent above fiscal 1965 sales of \$634,022,814. Virtually all phases of Gamble-Skogmo's diversified merchandising operations contributed to the gain in sales, which reflected both greater market penetration and a more than average rise in personal income in important segments of the company's territory. January, 1967 marked the 69th consecutive month in which sales exceeded those for the comparable period of a year earlier.

OPERATING EARNINGS AT HIGH LEVEL

Consolidated net income from operations, after Federal, State and Canadian taxes on income, totaled \$12,665,267 and was equivalent to \$3.06 per share on the 3,088,966 shares of common stock outstanding at the year end, after provision for preferred dividends.



Despite increased costs and expenses, including labor costs and interest, 1966 results exceeded those of a year earlier when net income from operations of \$12,538,610 or \$3.03 a share, included \$2,051,523, or 67 cents a share, derived from liquidating dividends representing prior and the current year's earnings of a then unconsolidated Canadian affiliate. Excluding this dividend income and on the basis of strictly comparable sources, fiscal 1966 operating earnings were 16 percent above those of the preceding year.

DIVIDEND INCREASED

The company's common stock was placed on an annual dividend rate of \$1.30 per share, as against the previous rate of \$1.20 per share, with the payment of a quarterly dividend of 32½ cents per share on October 31, 1966 and on January 31, 1967. Quarterly dividends of 30 cents a share were paid on April 30 and July 31, 1966, making a

total of \$1.25 in dividends paid on the common stock for the fiscal year.

During the year, four regular quarterly dividends of 43¾ cents per share were paid on the \$1.75 Cumulative Preferred Stock and 40 cents per share on the \$1.60 Cumulative Preferred Stock.

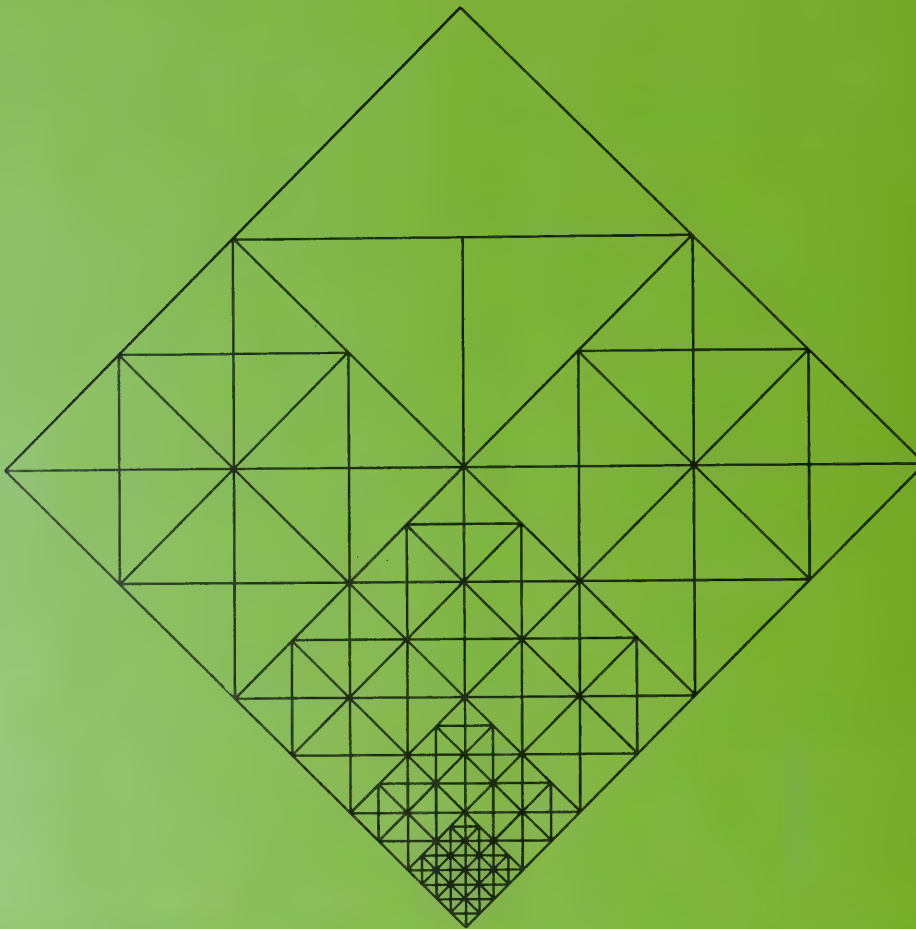
Gamble-Skogmo has paid dividends in each of the 39 years since its incorporation in 1928.

FINANCIAL POSITION

On January 31, 1967, consolidated net working capital amounted to \$198,849,423 as against \$167,593,556 at the previous year end. Current assets of \$337,881,321 were 2.43 times total current liabilities of \$139,031,898.

Stockholders' equity continued to increase and totaled \$151,725,335, or \$25.55 a share, as compared with \$145,953,059 at the 1965 year end.

Left to right, P. L. GNAM, Vice President for Personnel;
H. J. FROMMELT, Vice President for Public Relations;
E. C. MOORE, Vice President for Mass-Merchandising



Review of the Year *continued*

GAMBLE SKOGMO ACCEPTANCE CORPORATION

Installment contracts owned by Gamble Skogmo Acceptance Corporation and its wholly-owned subsidiary, Gamble-Aldens Credit Corporation, increased to \$84,132,023 at the close of fiscal 1966 as compared with \$73,985,071 a year earlier, reflecting the steady growth of credit sales throughout the organization. A consolidated balance sheet for the acceptance corporation and subsidiaries appears on page 32.

NEW FINANCIAL SUBSIDIARY

During the year, the company formed a new wholly-owned subsidiary, Gamble-Alden Securities Inc., to assist in marketing Gamble-Skogmo income notes and to extend the financial functions of the company.

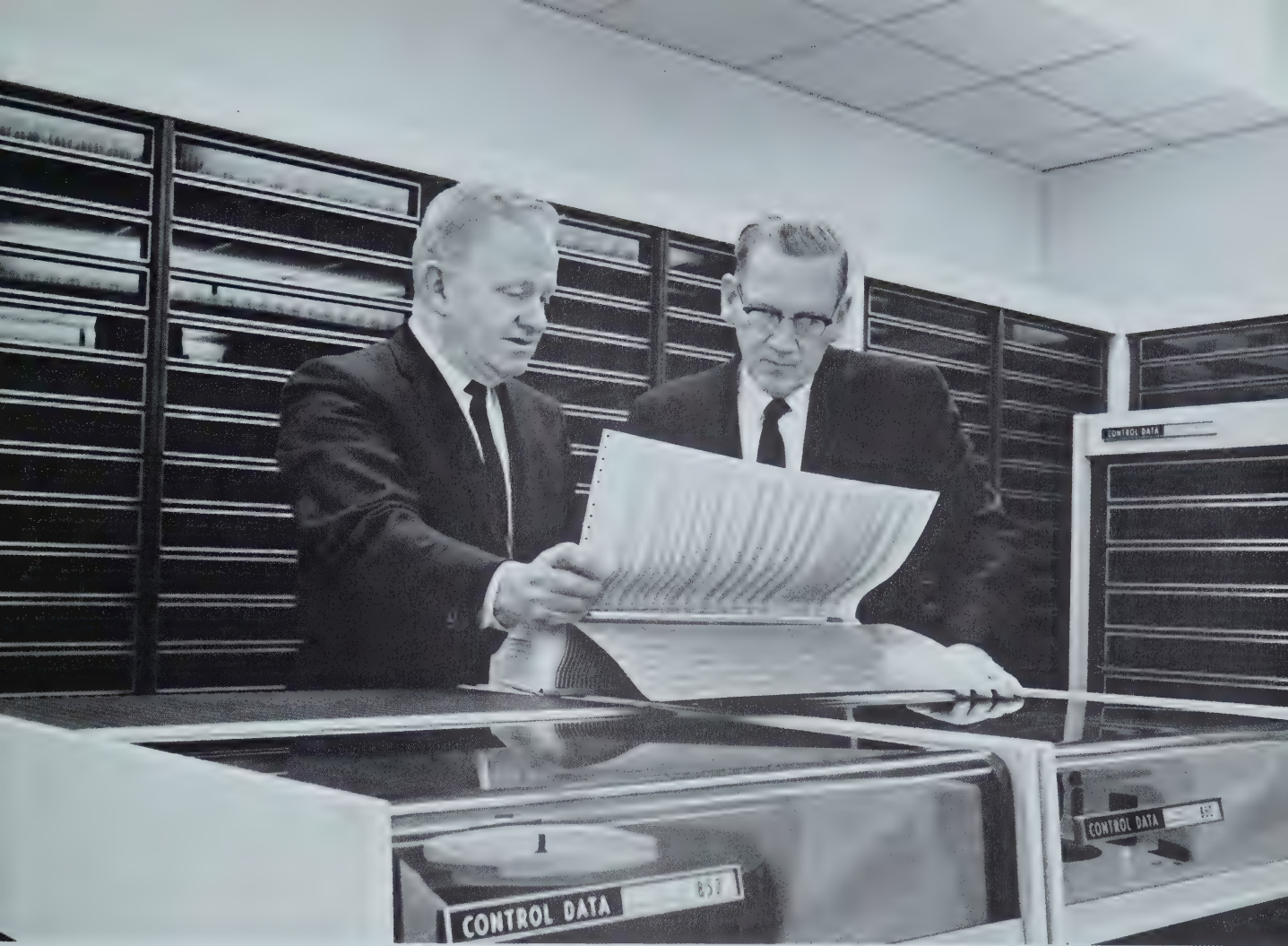
The first project of Gamble-Alden Securities Inc. has been to commence distribution of \$15,000,000 of 7% Subordinated Income Notes. The proceeds of these Notes will provide Gamble-Skogmo with long-term expansion capital without dilution of the equity of the common stockholder. Information about the Notes may be obtained from the Prospectus. Gamble-Alden Securities was so named to provide association with the parent company, and, at the same time, provide identification with Aldens, the company's large mail order subsidiary. Aldens is already important in the financial services field with its 100 percent ownership of the rapidly growing John Alden Life Insurance Company. During the past year, agency operations were expanded into Ohio, Wisconsin and Iowa, and at year end, total insurance in force in the John Alden Life Insurance Company exceeded \$250 million, an increase of more than 50 percent over last year.

SUBORDINATED INCOME NOTES

In the latter part of the year, an issue of the previously mentioned \$15,000,000 Subordinated Income Notes 7% Series 1977 was registered with the Securities and Exchange Commission. Of these Notes, \$4,616,900 have been offered in exchange for the outstanding Gamble-Skogmo Income Notes 7% Maximum Series 1976, with the balance offered through NASD members, including the company's wholly-owned subsidiary, Gamble-Alden Securities Inc. Through March of 1967, approximately \$8 million of this issue have been sold.

NOTES TO BE OFFERED FOR RED OWL STORES, INC. STOCK

As this Review of the Year was being prepared, it was announced that Gamble-Skogmo, Inc. planned to offer \$19 of a 7% Subordinated Income Note due 1977 for each of the approximately 1,513,000 shares of Red Owl Stores, Inc. common stock presently outstanding, subject to legal and other contingencies. The holders of these Notes may cause the same to be purchased for cash



Left to right, P. R. RONEBERG, Controller;
D. W. OLSON, Vice President

on specified dates at a price equal to \$17.50 per Red Owl common share. Gamble-Skogmo plans to file for a new issue of Subordinated Notes, and the exchange offer together with the conditions for exchange will be made only by prospectus, probably in May or June of this year after necessary legal preliminaries have been completed. The exchange offer may not be made in certain states because of the difficulty and expense of complying with all local requirements.

Mr. Ford Bell, Chairman of Red Owl, and other members of the Bell family, who in the aggregate own or control approximately 17 percent of Red Owl shares of common stock, have agreed to accept the exchange offer.

Red Owl owns distribution and retail grocery facilities, Snyders drug stores, radio stations, and conducts franchised wholesale food operations.

Red Owl serves a twelve-state marketing territory closely approximating the area

in which Gamble-Skogmo has the greatest concentration of its retail operations. Large-scale hard and softline merchandise is compatible with the operation of well-managed food distribution centers, and the company's experience with Red Owl Stores operating in conjunction with thirteen Tempo Stores has indicated that both companies will benefit through working closely together.

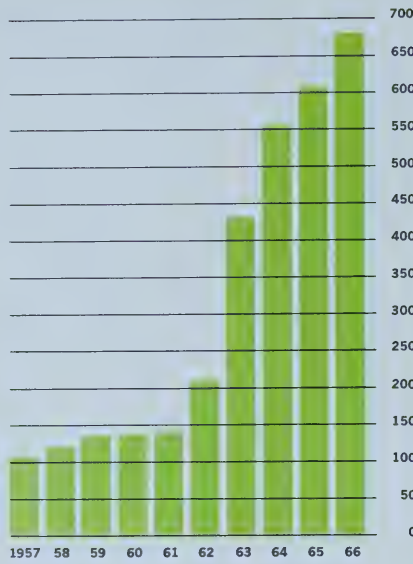
EXECUTIVE WILLIAM P. BERGHUIS RETIRES

At year end, William P. Berghuis, Senior Vice President, Secretary, corporate legal counsel and Director, retired from active company service. Mr. Berghuis, who reached retirement age during the year, joined the company in 1946, and had handled its legal activities since the company was founded in 1925.

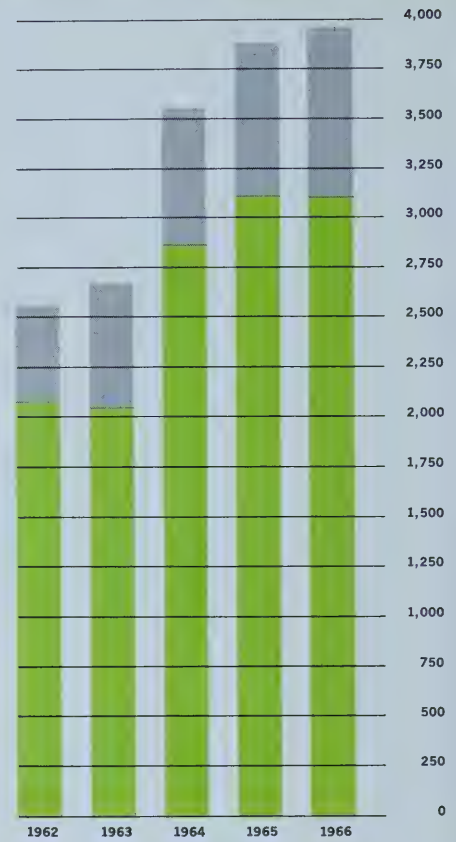
Stockholders' Equity in millions of dollars



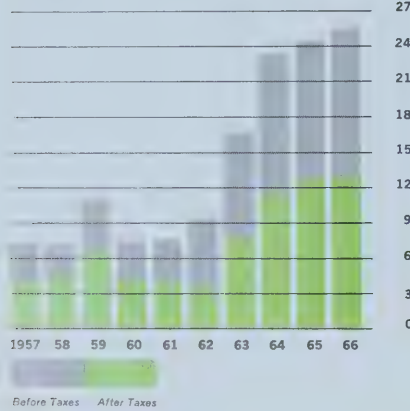
Net Sales in millions of dollars



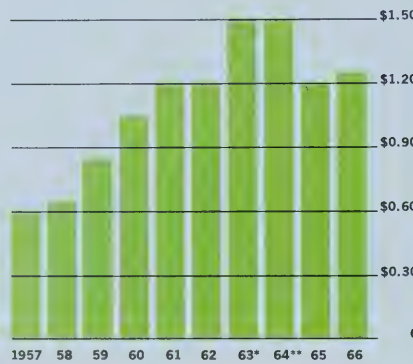
Number of Outlets



Net Earnings in millions of dollars
(Excludes earnings from special credits)

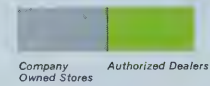


Dividends per common share



*Includes extra dividend of \$.30 per common share.

**Includes regular dividends for five quarters due to fiscal year end change to January 31, 1965 and excludes 3% stock dividend.



Gamble-Skogmo, Inc. 3,009 Domestic Stores by State

STATE	Gamble Branches	Gamble Dealers	Skogmo Dealers	Tempo* Dept. Stores	Cussins & Fearn Stores	Rasco Variety Stores	Rasco Franchise Dealers	Mode O' Day Co. Owned Frock Shops	Mode O' Day Dealers	Aldens Catalog Sales	Aldens Telephone Offices	Department Stores (Aldens)	Shoppers World	Eisen Branches	Eisen Dealers
Alaska.....									2						
Arizona.....						1	10	1	13						1
Arkansas.....		3						3	17			1		1	
California.....						†8	68	11	214			2			1
Colorado.....	13	71	3	3				2	25		1				2
Florida.....									6						
Hawaii.....									2						
Idaho.....	1	12		4					16						
Illinois.....	10	99	4	3				1	32	27	2	4	11	1	12
Indiana.....	4	40	2	1					13	12		5	2	4	4
Iowa.....	32	116	14	2				2	34	5		2		1	7
Kansas.....	13	87	11	5				6	27	1				10	3
Kentucky.....		10							1	3		3			
Louisiana.....								1				1			
Maine.....												1			
Maryland.....											1				
Michigan.....	18	135	13	4				2	10	20	2	1		2	2
Minnesota.....	23	203	50	10					8	3	1				1
Missouri.....	6	67		5				2	36	5			1	6	
Montana.....	10	65	8	3					8						
Nebraska.....	20	122	18	2				2	18		1				
Nevada.....							1		7						
New Mexico.....	2	23		1		3	9		15						3
New York.....											4				
North Dakota.....	8	60	18	5					1						
Ohio.....	3	14			**38				7	16	1	1		1	4
Oklahoma.....	1	6							10		1			3	
Oregon.....							1		46						
Pennsylvania.....											2	1			
South Carolina.....												1			
South Dakota.....	12	78	12	3					2						
Tennessee.....		1										1			
Texas.....		3						2	51						
Utah.....		2							19						
Washington.....		1				3	13	3	53						
Wisconsin.....	25	166	44	3					8	11				1	11
Wyoming.....	7	22	2	1				1	7						
Total.....	208	1406	199	55	38	15	102	39	708	103	16	24	15	30	51

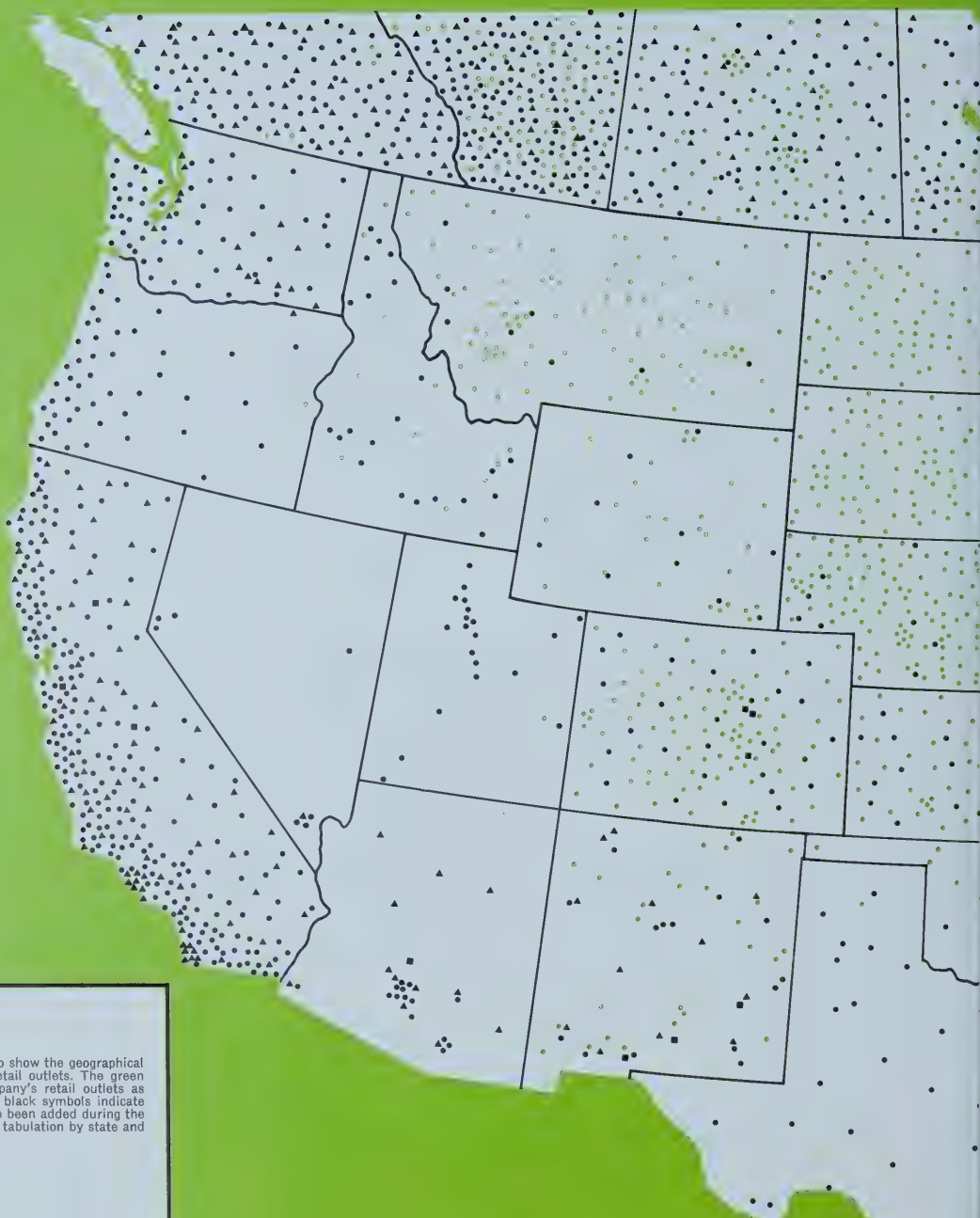
*Includes five Gamble Department stores in Kansas City area.

**Includes 26 regular retail stores and 12 Buckeye Marts.

†Includes one Rasco Mass Merchandising store.

Gamble Macleod Limited • 903 Canadian Stores by Province

PROVINCE	Macleods		Stedmans		Clark's Gamble Ltd.	Marshall Wells	
	Branches	Dealers	Branches	Dealers		Branches	Dealers
Alberta.....	30	48	7	29		9	93
British Columbia...	7	2	19	22		10	74
Manitoba.....	12	40		6	3	4	49
New Brunswick.....			16	4			
Newfoundland.....			1				
Nova Scotia.....			23	6			
Ontario.....	3	4	70	113	1	2	5
Prince Edward.....			2	2			
Quebec.....			2	4			
Saskatchewan.....	27	58	6	17		11	62
TOTAL.....	79	152	146	203	4	36	283



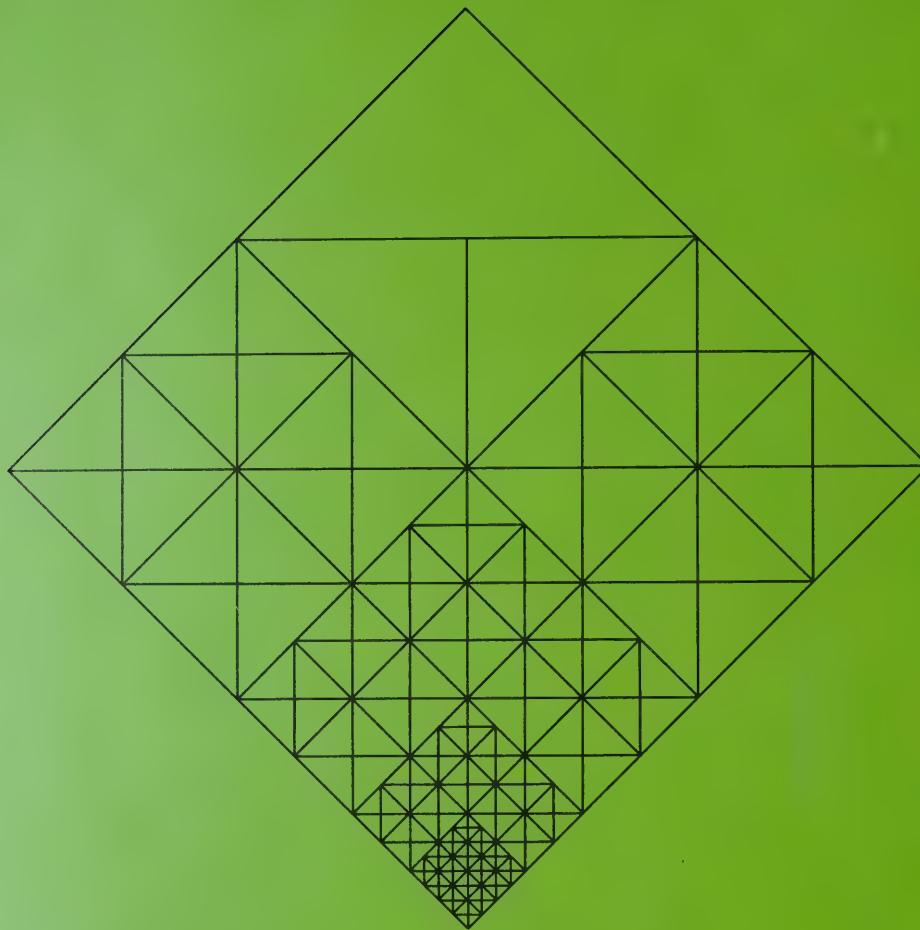
GAMBLE-SKOGMO, INC.

This map is intended only to show the geographical scope and density of our retail outlets. The green symbols represent the company's retail outlets as they were in 1961, and the black symbols indicate those retail outlets that have been added during the past five years. For detailed tabulation by state and province, refer to page 15.

Number of
Retail Outlets
1961 1966

- IN U.S.A.
Gamble Company-owned and Franchised Stores
Tempo Self-Service Department Stores
Skogmo Franchised Stores
Mode O'Day Company-owned and Franchised Stores
- IN CANADA
Macleods Company-owned and Franchised Stores
Marshall Wells Company-owned and Franchised Stores
Clarks Department Stores
- IN U.S.A.
Aldens Catalog Sales Stores and Telephone Sales Offices
Shoppers World Stores
Department Stores
Eisen Company-owned and Franchised Stores
- ▲ IN U.S.A.
Rasco Stores
Cussins and Fearn Stores
Buckeye Marts
- ▲ IN CANADA
Stedmans Company-owned and Franchised Stores





Management Feature

Beyond the advances in management science techniques—beyond the merchandise inventory and the buildings—the success of a merchandising operation today depends more than ever on the character and quality of the men who comprise its management. People—a company's greatest asset—do not appear on the balance sheet. However, the true effectiveness of people at all levels is determined by management.

Large-scale retailing, influenced as it is by the constant proliferation of merchandise and by competitive pressures generated by the consumer in search of true values, requires a management prepared through background and experience to exercise sound marketing judgment. As the major companies in the field of merchandising increase in size and complexity, the nature of these capabilities becomes more evident.

With these considerations in mind, a

management has been assembled with which the prestige and potential-for-profit of your company can be entrusted. Some have been promoted from acquired organizations; others have been selected from the staffs of worthy competitors; while others have moved steadily upward within the ranks of the organization itself. Whatever the route taken, each has demonstrated in day-to-day merchandising a capability for judgment and decision, and a flexibility to adjust to the team requirements of a balanced marketing organization.

In the foregoing pages of this report you have been introduced to the executives of the parent company. In the following pages of this report you will meet some of those in our divisions and subsidiaries entrusted with management responsibility which they practice daily in the pursuit of the common objectives of the company and its stockholders.



TOP PICTURE: Late in 1964, Aldens, Inc., the country's fourth largest mail order organization, was merged into Gamble-Skogmo. At the time of the merger it was noted that Aldens would complement and strengthen Gamble-Skogmo's marketing structure, particularly through its well-established mail order catalog and related catalog sales activity.

In addition to its catalog activities, Aldens also operates 24 well-established conventional department stores, 15 Shoppers World self-service mass-merchandising department stores,

and it operates the rapidly growing John Alden Life Insurance Company.

Left to right: Carle R. Wunderlich, President; Henry A. Johnson, Vice President for Merchandising and Sales; Joseph E. Callaway, Vice President, John Alden Life Insurance Company; Thomas W. Smith, Vice President for Operations; Andrew C. Shedden, Vice President and Assistant to the President; and Robert E. Riley, Vice President for Retail Stores.

LOWER PICTURE: Rasco stores were founded in 1934 in Fullerton, California. At the close of 1966, Rasco was serving 117 general variety stores of which 15 are company-owned and 102 are franchised dealers. The lines of merchandise are confined mainly to those traditionally merchandised in variety stores. These stores are situated mainly in far western states and most range in size from 3,000 to 10,000 square feet.

Left to right: H. D. Nelson, Vice President for Merchandising; George C. Bohlig, Management Board; Paul Horst, Vice President for Operations; William H. Lollar, President of Rasco and Vice President of the parent company; and John McCormick, Vice President for Finance.



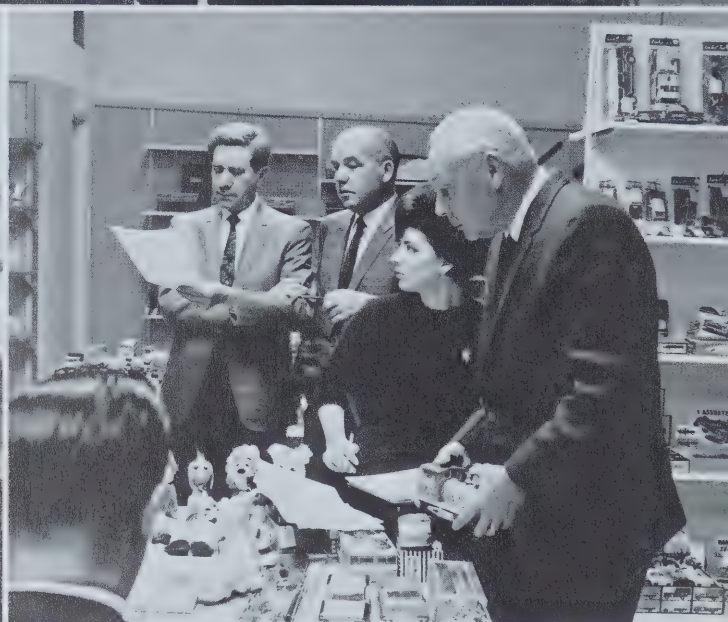
Management Feature *continued*

TOP PICTURE: Mode O'Day stores were founded in 1932 in Glendale, California. Currently there are 39 company-owned Mode O'Day Frock Shops and 708 Mode O'Day franchised dealers. Merchandise featured includes low-priced women's and children's apparel, sportswear, lingerie, swimwear, suits, handbags, hosiery, slippers and costume jewelry. The majority of the stores range in size from 1,000 to 1,500 square feet and most are owned or operated by women.

Left to right: Fred Wotring, Vice President for Finance and Secretary; Mark Ross, Executive Vice President for Merchandising; George C. Bohlig, Managing Director; John Friedrichs, Vice President for Manufacturing; Stanley Wilson, Vice President for Operations; Icer M. Malouf, President; and Monty Cass, Display Specialist.

BOTTOM PICTURE: Gamble-Alden Securities Inc. was organized in 1966 to extend the financial functions of the company. The first project of Gamble-Alden Securities has been to commence the distribution of \$15,000,000 of 7% Subordinated Income Notes to provide Gamble-Skogmo with long-term expansion capital.

Left to right: Gene Goick, Marketing and Sales Director; J. Philip Goan, President of Gamble-Alden Securities and Vice President of the parent company; and Joseph Offerman, Vice President.



TOP PICTURE: Eisen Mercantile, Inc. of Kansas City, was acquired in September of 1966. This division of the company is a wholesale-retail marketer and distributor of piece goods and notions primarily in the home sewing field. The company currently operates 30 company-owned "House of Fabrics" shops and 51 franchised units. This division also supplies this fast-moving and profitable merchandise to a number of the company's stores.

Left to right: Paul Wyss, Retail Operations and Location Development; Melvin Eisen, President; Harry Eisen, Vice President; Herbert Wolfson, Purchasing; Robert Wolf, Franchising.

LOWER LEFT PICTURE: With the merger of Founders Incorporated into Gamble-Skogmo in January of 1966, Cussins & Fearn stores, which were founded in Columbus, Ohio, in 1893, became part of the Gamble-Skogmo organization. This retailing group, whose stores are confined to Ohio, is very similar in size and character of merchandise lines to the company's Gamble and Tempo stores. This chain includes 26 regular general hardlines retail stores and 12 Buckeye Marts.

Left to right: Phillip A. Ficocella, Executive Vice President, Secretary and Treasurer; Robert G. Leohner, President and General Manager; Edward H. Anderson, Vice President for Store Operations.

LOWER RIGHT PICTURE: Gamble Import Company was organized to direct the buying of the rapidly-growing volume of imports from the Orient and Europe for all Gamble-Skogmo subsidiaries and divisions. In its short history, it has proven to be a most advantageous method of coordinating this important and profitable area of merchandising activity.

Left to right: Sam Luftig, Vice President; H. D. Nelson, President; Carol Stiles, Administrative Assistant; and Jack Silverman, Vice President.



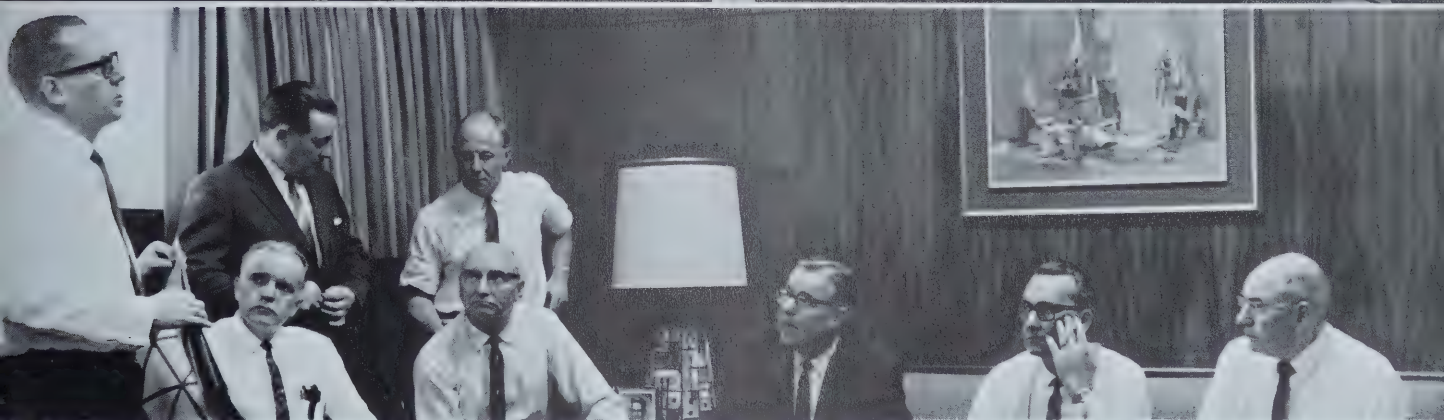
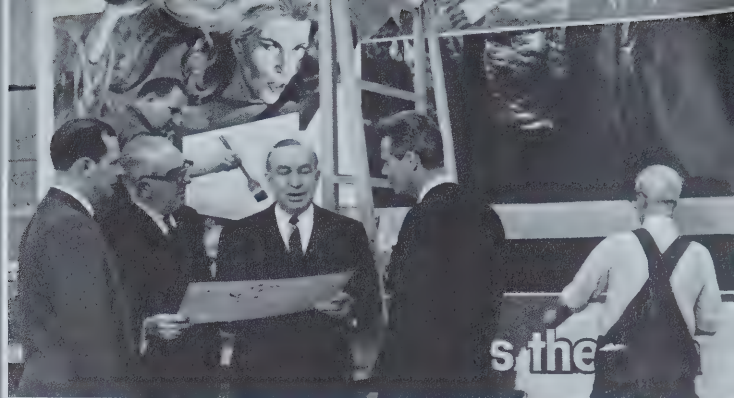
Management Feature *continued*

TOP PICTURE: The initial retailing venture in Canada was of a relatively modest nature. Macleods stores, at the time of acquisition in 1945, consisted of 27 general merchandise stores in western Canada. The intervening years in the Canadian economy set the stage for a sweeping change in retailing, and the company has been able to meet these demands through further retailing acquisitions and constant expansion of its marketing facilities.

Gamble Macleod Limited with headquarters in Winnipeg, Manitoba, is now the senior organization directing all Canadian operations. Executives in charge of this important operation are, left to right: P. C. Fikkan, Vice President; Arnold G. Kirkness, President of Gamble-Macleod and a Director of Gamble-Skogmo; John B. Cheyne, Vice President for Merchandising; J. L. MacDonald, Vice President and Treasurer; and W. R. Templin, Vice President and Secretary.

LOWER PICTURE: From the original stores, Macleods, which is now the Macleod Division, has expanded over western Canada and today there are 79 company-owned stores and 152 franchised dealers. The Macleod Division is actively furthering the department store concept of merchandising by concentrating expansion to larger units. Today Macleods caters to both urban and rural markets, serving all family needs in a rapidly-expanding economy characterized by growing personal income.

Left to right: J. A. Grant, Controller; A. McGregor, Vice President and Advertising Manager; M. N. McColl, Warehousing Manager; B. A. Clark, Mgr., Store Planning and Display; L. E. Smith, Assistant Vice President for Merchandising; D. R. Gibson, Vice President for Merchandising; and M. Richardson, Vice President for Store Operations.



UPPER LEFT PICTURE: In 1963, Stedmans, a one-half-century-old variety chain was acquired, and it is now operated as the Stedman Division. Sharp changes have been effected in its operations, including the broadening of lines of merchandise and the remodeling and enlarging of stores to take advantage of the favorable Canadian retailing conditions. The company operates 146 company-owned stores and 203 franchised dealers.

Left to right: E. J. Eason, Vice President and Treasurer; E. H. Merklinger, Vice President for Merchandising; and Sam P. Woolever, President.

UPPER RIGHT PICTURE: Claude Neon Advertising Limited was formerly a part of General Outdoor Advertising Co., Inc., merged into Gamble-Skogmo in 1963. This subsidiary has continued its growth and profit contributions through its two divisions, Universal Sign Company

Limited and E. L. Ruddy Limited.

Left to right: A. R. Reid, Comptroller; Jules T. Lapointe, Vice President, Secretary and Treasurer; George Caspari, President of Claude Neon Advertising Limited; and C. Penaligon, Vice President and General Manager, E. L. Ruddy Company, Limited.

MIDDLE RIGHT PICTURE: Gamble Drug Limited, organized in 1965, has made substantial progress in its wholesale drug operations. The company is selling to retail pharmacies, hospitals, clinics and institutions and has established a franchise drug program to assist retailing pharmacists by providing a complete merchandising program to the independent drug merchant.

Left to right: R. B. Reiersen, Merchandise Buyer; W. R. Koltek, General Manager; John B. Cheyne, President; and B. Gillespie, Accountant.

LOWER PICTURE: Marshall Wells Limited became a wholly-owned subsidiary of Gamble Macleod Limited in 1965. Founded in 1901, the company has expanded its distribution, supplying hardlines on a retail and wholesale basis, and has substantial industrial volume. Marshall Wells has 36 company-owned stores and 283 franchised dealer stores. The company holds a 49% interest in Wood Alexander Limited, Hamilton, Ontario, a hardware distributor serving industry and 95 Crest franchised dealers.

Left to right standing: D. D. Bailey, Assistant Vice President for Merchandising; L. A. Head, Vice President for Industrial Sales; and R. W. Wooten, Controller.

Left to right sitting: S. J. Coppinger, Senior Vice President; W. R. Gambs, Vice President for Retail Operations; Bruce Sutherland, President; R. G. Rock, Vice President; and C. A. Steidl, Secretary and Treasurer.

Significant Comparisons

	1966 (1)	1965(3)	1964(3)
Net Sales:			
Comparable Units (Including Leased Depts).....	\$682,365,336	\$608,243,214	\$555,462,800
Actual (Excluding Leased Depts).....	657,532,341	582,720,970	533,251,668
Earnings Before Income Taxes.....	25,688,037	24,519,383	23,080,736
Provision for Income Taxes.....	13,022,770	11,980,773	11,810,383
Net Earnings (2).....	12,665,267	12,538,610	11,270,353
Net Earnings Per Common Share (2) (4).....	3.06	3.03	2.59
Dividends Paid—Cash.....	7,058,288	5,426,060	4,383,293
Dividends Paid Per Common Share.....	1.25	1.20	1.50(5)
Current Assets.....	337,881,321	304,190,964	290,092,125
Current Liabilities.....	139,031,898	136,597,408	121,845,316
Net Working Capital.....	198,849,423	167,593,556	168,246,809
Current Ratio.....	2.43 to 1	2.23 to 1	2.38 to 1
Stockholders' Equity.....	151,725,335	145,953,059	140,087,360
Book Value Per Common Share (4).....	25.55	23.76	21.86
Book Value Per Common Share			
Assuming Conversion of Preferred Stock.....	29.99	28.91	27.75
Inventories.....	162,742,874	142,636,279	115,760,507
Number of Shareholders.....	16,476	16,576	15,401
Number of Employees.....	22,804	20,833	18,588
Number of Company Owned Stores.....	689	659	617
Number of Company Owned Catalog Offices.....	119	111	107
Number of Authorized Dealers.....	3,104	3,115	2,826
Number of Warehouses.....	23	22	16

(1) See Note (1) of notes to consolidated financial statements.

(2) Excludes income from special credits of \$285,185 or \$.09 per common share in 1965, \$3,946,734 or \$1.28 per share in 1964, \$4,484,899 or \$1.60 per share in 1963, \$11,598,557 or \$4.35 per share in 1962, \$2,304,691 or \$.87 per share in 1961 and \$15,089,440 or \$5.69 per share in 1960.

(3) Restated to include operations of companies merged with Gamble-Skogmo, Inc. as follows: 1962 to include General Outdoor Advertising Company, Inc. and subsidiaries. 1963 to include Aldens, Inc. and Consolidated subsidiaries except for statistics marked * which are not restated. 1964 to include Founders, Incorporated and subsidiaries. 1965 restated to include five wholly-owned real estate subsidiaries.

(4) Based on common shares outstanding at end of year adjusted for shares issued in mergers as explained in note (3).

(5) Includes cash dividends for five quarters due to change in accounting period from calendar to fiscal year ending January 31 and excludes 3% stock dividend.

(6) Includes extra dividend of \$.30 per common share.

1963(3)	1962(3)	1961	1960	1959	1958	1957
\$430,761,558	\$209,499,171	\$139,780,698	\$135,885,836	\$135,382,053	\$119,821,596	\$108,678,638
413,319,479	203,514,468	140,886,901	143,369,286	143,123,142	119,821,596	108,678,638
16,532,774	9,039,280	7,518,763	7,268,415	10,757,615	6,988,694	7,219,226
8,811,518	5,612,532	3,707,973	3,209,200	4,547,710	2,593,248	3,218,048
7,721,256	3,426,748	3,810,790	4,059,215	6,209,905	4,395,446	4,001,178
1.61	.89	1.44	1.50	2.27	1.56	1.40
4,071,618	3,191,791	3,182,791	2,869,895	2,430,760	1,906,190	1,785,254
1.50(6)	1.20	1.20	1.05	.85	.65	.60
94,600,129*	90,928,590	57,388,809	69,758,212	58,073,440	45,697,219	43,628,075
33,363,156*	41,802,163	20,033,663	16,057,718	22,291,316	13,208,441	12,615,589
61,236,973*	49,126,427	37,355,146	53,700,494	35,782,124	32,488,778	31,012,486
2.84 to 1*	2.18 to 1	2.86 to 1	4.34 to 1	2.61 to 1	3.46 to 1	3.46 to 1
98,213,159*	92,424,947	65,933,118	63,000,455	50,126,616	46,480,322	44,770,936
26.49*	25.70	24.86	23.75	17.62	16.19	14.75
61,629,968*	57,115,687	37,522,953	39,051,119	33,877,723	27,615,238	23,391,594
14,780	11,049	8,155	7,782	8,533	8,373	8,026
14,373	7,057	3,961	3,874	3,757	3,719	3,648
527	495	337	330	323	325	318
106						
2,040	2,075	1,932	1,935	1,869	1,839	1,823
12	9	8	8	7	8	8

Consolidated Balance Sheet

January 31

Assets	1967	1966 (note 1)
Current Assets:		
Cash	\$ 14,473,914	\$ 14,161,969
Receivables (note 2)	152,297,068	141,275,229
Inventories at lower of cost or market	162,742,874	142,636,279
Prepaid expenses	8,367,465	6,117,487
Total Current Assets	<u>337,881,321</u>	<u>304,190,964</u>
Investments:		
Unconsolidated subsidiaries (note 1)	14,662,589	13,086,147
Other securities and notes receivable, at cost	4,540,566	3,307,916
Total Investments	<u>19,203,155</u>	<u>16,394,063</u>
Property and equipment—net (note 3)	69,192,637	63,010,424
Intangible assets, arising in connection with acquisition of subsidiary companies (note 4)	26,904,789	23,973,667
Deferred charges and miscellaneous assets	5,312,142	4,847,256
	<u>\$458,494,044</u>	<u>\$412,416,374</u>

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity

	1967	1966 (note 1)
Current Liabilities:		
Notes payable.....	\$ 44,412,597	\$ 52,241,380
Current instalments of long-term debt.....	3,640,273	2,768,989
Accounts payable and accrued liabilities.....	60,713,878	55,095,800
Current income taxes.....	7,427,850	6,903,739
Deferred Federal income taxes (note 5).....	22,837,300	19,587,500
Total Current Liabilities.....	<u>139,031,898</u>	<u>136,597,408</u>
Minority interests in consolidated subsidiaries.....	367,272	1,374,955
Long-Term Debt (note 6) excluding subordinated income notes shown below as capital funds:		
Senior.....	131,893,231	103,273,254
Real estate subsidiary indebtedness.....	16,472,108	12,617,698
Subordinated notes of Aldens, Inc,	12,600,000	12,600,000
Total	<u>160,965,339</u>	<u>128,490,952</u>
Capital funds comprising subordinated income notes and stock- holders' equity:		
Subordinated income notes of Gamble-Skogmo, Inc. (note 6)....	6,404,200	—
Stockholders' equity (note 7)	151,725,335	145,953,059
Contingent liabilities and commitments (notes 8 and 9).....		
	<u>\$458,494,044</u>	<u>\$412,416,374</u>

Consolidated Statement of Earnings

Year ended January 31

	1967	1966 (note 1)
Sales and Other Income:		
Sales.....	\$682,365,336	\$608,243,214
Less leased department sales.....	24,832,995	25,522,244
Net merchandise sales.....	657,532,341	582,720,970
Advertising revenues.....	12,602,758	11,909,862
Other income—net.....	2,139,039	1,038,717
Dividend from affiliate representing mainly prior years' earnings.....	—	2,051,523
Total Income.....	672,274,138	597,721,072
Costs and Expenses:		
Cost of sales, including certain occupancy and buying costs.....	484,005,956	431,677,091
Operating and administrative expenses (net of instalment account service charges).....	138,228,915	122,233,559
Depreciation and amortization.....	7,733,895	5,835,820
Interest.....	13,113,473	10,446,151
Provision for employees' profit sharing (retirement) trusts.....	3,503,862	3,009,068
Total Costs and Expenses.....	646,586,101	573,201,689
Earnings before income taxes.....	25,688,037	24,519,383
Provision for income taxes (note 5).....	13,022,770	11,980,773
Net earnings.....	12,665,267	12,538,610
Special credits—net.....	—	285,185
Net earnings and in 1966 special credits.....	\$12,665,267	\$12,823,795

See accompanying notes to consolidated financial statements.

Consolidated Statement of Retained Earnings

January 31

	1967	1966 (note 1)
Retained earnings at beginning of year	\$ 95,772,650	\$ 89,380,711
Net earnings and in 1966 special credits	12,665,267	12,823,795
	<u>108,437,917</u>	<u>102,204,506</u>
Deduct:		
Loss on disposition of treasury stock	192,020	—
Income taxes on dividend received on Gamble common stock owned by Founders	—	88,992
Cash dividends on:		
\$1.75 preferred stock	1,044,926	1,044,928
\$1.60 preferred stock	2,167,808	2,167,925
Common stock—\$1.25 per share (\$1.20 in 1966)	3,845,554	2,213,207
Stock of pooled companies prior to acquisition	—	916,804
Total deductions	<u>7,250,308</u>	<u>6,431,856</u>
Retained earnings at end of year	<u>\$101,187,609</u>	<u>\$ 95,772,650</u>

Statement of Source and Application of Funds

Source of Funds:		
Net earnings and in 1966 special credits	\$12,665,267	\$12,823,795
Depreciation and amortization of fixed assets	7,733,895	5,835,820
Decrease in investments	—	4,968,941
Increase in long-term debt—net	38,878,587	9,735,049
Other	357,317	393,948
Total	<u>\$59,635,066</u>	<u>\$33,757,553</u>
Application of Funds:		
Cash dividends	\$ 7,058,288	\$ 6,342,864
Increase in working capital	31,255,867	4,474,983
Additions to fixed assets, net of disposals	13,916,108	18,879,079
Increase in investments	2,809,092	—
Additions to other assets	3,396,008	1,999,337
Reduction of minority interest in consolidated subsidiaries	1,007,683	1,293,626
Other	192,020	767,664
Total	<u>\$59,635,066</u>	<u>\$33,757,553</u>

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements • January 31, 1967

(1) Principles of consolidation

The consolidated financial statements include the accounts of Gamble-Skogmo, Inc. and all subsidiaries except: (a) wholly-owned life insurance subsidiary of Aldens, Inc., wholly-owned finance subsidiary of Gamble Macleod Limited and three subsidiaries of Gamble-Skogmo, Inc. all of which, when considered in the aggregate, do not constitute a significant subsidiary, and (b) Gamble Skogmo Acceptance Corporation, wholly-owned finance subsidiary, and its subsidiaries for which a consolidated balance sheet appears elsewhere in this report. Subsidiaries not consolidated are carried in the accompanying balance sheet substantially at underlying equity value and earnings of these subsidiaries for the year ended January 31, 1967, \$788,953, have been included in the consolidated statement of earnings under the caption "Other income-net."

For comparative purposes the financial statements for the fiscal year 1966 have been restated to include five wholly-owned real estate subsidiaries which were consolidated for the first time in 1967. This change in practice has no effect on net earnings since the investments in real estate subsidiaries were previously recorded at underlying equity value.

Provision has been made for loss on conversion of the accounts of Canadian subsidiaries to U. S. dollars and for income taxes on dividends which may be paid from undistributed earnings of Canadian subsidiaries.

(2) Receivables

	1967	1966
Customer deferred payment accounts.....	\$239,832,435	\$218,565,400
Other customer accounts.....	16,799,612	15,545,740
Miscellaneous.....	7,299,966	5,056,392
Total accounts receivable.....	263,932,013	239,167,532
Less allowance for doubtful accounts and estimated collection expenses.....	17,268,063	15,572,282
	246,663,950	223,595,250
Less customer contracts sold principally to finance subsidiaries less portion withheld pending collection.....	94,366,882	82,320,021
Net accounts receivable.....	\$152,297,068	\$141,275,229

(3) Property and equipment, (at cost)

Land.....	\$ 7,956,664	\$ 6,601,929
Buildings and equipment.....	84,841,571	75,967,329
	92,798,235	82,569,258
Less allowance for depreciation.....	31,734,789	27,375,799
	61,063,446	55,193,459
Advertising display plants, less amortization.....	2,535,663	2,646,600
Leasehold improvements, less amortization.....	5,593,528	5,170,365
Net property and equipment.....	\$ 69,192,637	\$ 63,010,424

Net book value of properties pledged under long-term debt agreements of real estate subsidiaries aggregated \$15,980,190 at January 31, 1967.

(4) Intangible assets

The companies do not intend to amortize the remaining balance of intangible assets arising in connection with acquisition of subsidiaries since there has been no evidence of impairment of value of the assets and business of such subsidiaries.

(5) Deferred Federal income taxes

Deferred income taxes at January 31, 1967 includes \$21,604,800 resulting from differences between tax and financial accounting (principally with respect to instalment sales) and also includes \$1,232,500 representing deferred taxes on dividends of Canadian subsidiaries which may be paid in future years from undistributed earnings. Provisions for deferred income taxes for the periods ended January 31, 1967 and January 31, 1966 were \$3,249,800 and \$3,455,000, respectively.

(6) Long-term debt

Senior indebtedness aggregating \$131,893,231 includes \$50,000,000 under revolving credit agreements, 5½% and 6% sinking fund debentures of \$20,000,000 maturing in 1981 and 1982, and the balance, \$61,893,231, represents principally unsecured notes maturing to 1984 with interest rates ranging from 4½% to 6%.

Loans of real estate subsidiaries, \$16,472,108, bear interest at rates ranging from 5½%-5½% and mature to 1990. Subordinated notes of Aldens, Inc., \$12,600,000, bear interest at 5¼% and 5½% and are payable in annual instalments commencing April 1, 1968 through 1985.

Subordinated income notes of Gamble-Skogmo, Inc., included as capital funds in the accompanying balance sheet, bear interest at 7% and mature in 1976 and 1977.

The Company has borrowed the maximum amounts under \$20,000,000 and \$30,000,000 revolving credit agreements with banks at prime to ½% over prime interest rates. The portion of such loans outstanding at February 28, 1968 and 1969, respectively, may be converted into five and three year term loans. Commitment fees are payable during periods the Company fails to borrow the maximum amount permitted under the respective agreements.

Annual payments of long-term debt during the next five years ending January 31 are as follows: 1968—\$3,640,273; 1969—\$15,481,502; 1970—\$24,185,804; 1971—\$20,254,038; and 1972—\$19,874,801. The foregoing maturity

Notes to Consolidated Financial Statements, Continued

- (6) Long-term debt, continued
schedule assumes that the \$50,000,000 presently outstanding under revolving credit agreements will remain outstanding until converted to term loans.

(7) Stockholders' equity	1967		1966	
	Shares	Amount	Shares	Amount
Preferred stock:				
Voting stock of \$40 par value; cumulative and convertible, \$1.75 per share dividend:				
Authorized.....	600,000		600,000	
Issued.....	597,092	\$ 23,883,680	597,092	\$ 23,883,680
Voting stock of \$5 par value; cumulative and convertible, \$1.60 per share dividend:				
Authorized.....	1,400,000		1,400,000	
Issued.....	1,354,879	6,774,395	1,354,904	6,774,520
Preferred stockholders' equity.....		30,658,075		30,658,200
Common stock of \$5 par value:				
Authorized.....	6,000,000		6,000,000	
Issued.....	3,088,966	15,444,830	3,088,889	15,444,445
Retained earnings.....		101,187,609		95,772,650
Additional paid-in capital.....		4,434,821		4,433,600
		121,067,260		115,650,695
Less common stock held by subsidiary, at cost..	—	—	10,400	355,836
Common stockholders' equity.....		121,067,260		115,294,859
		\$151,725,335		\$145,953,059

Each share of \$1.75 preferred stock is convertible into 1.03 shares of common stock until October 31, 1973, 9,027/10,000ths of a share to October 31, 1978 and 8,024/10,000ths of a share to October 31, 1983 on which date conversion rights expire. There were no such conversions during the year ended January 31, 1967. The stock is redeemable at the option of the Company at \$42.50 per share plus accrued and unpaid dividends during the year ending October 31, 1969 with successive annual reductions of 25 cents per share to \$40.00 per share on and after November 1, 1978. Sinking fund requirements, equal to 5% per year of shares issued, commence in 1983.

Each share of \$1.60 preferred stock is convertible into one share of common stock until November 30, 1974, 9/10ths of a share to November 30, 1979 and 8/10ths of a share to November 30, 1984 on which date conversion rights expire. Twenty-five shares were converted to common stock during the year ended January 31, 1967. The stock is redeemable at the option of the Company after November 30, 1969 at \$35.00 per share plus accrued and unpaid dividends, and in the event of involuntary liquidation at \$40.00 per share. Sinking fund requirements, equal to 5% per year of shares issued, commence in 1984.

At January 31, 1967, 2,522,924 shares of common stock were reserved as follows:

- 1,969,884 shares for issuance upon conversion of the aforementioned preferred stocks.
- 206,000 shares for issuance at a price of \$25.24 per share upon exercise of warrants issued in connection with the sale of notes originally due on May 1, 1975 but prepaid in 1965. Such warrants expire May 1, 1970.
- 347,040 shares for issuance under the Company's Restricted Stock Option Plan for executives and key employees. At January 31, 1966 options on 113,642 shares were outstanding. During the ensuing year options were issued for 80,000 shares, options were exercised on 52 shares with a resultant increase in additional paid-in capital of \$1,221, and options for 613 shares lapsed, leaving options on 192,977 shares at an aggregate option price of \$5,353,765 at January 31, 1967.

Retained earnings at January 31, 1967 includes undistributed earnings of subsidiaries, \$71,125,420, of which approximately \$14,500,000 is restricted as to payment of dividends under the terms of various indentures and agreements relating to long-term debt.

- (8) Contingent liabilities and commitments

Notes sold to banks in prior years under purchase-guaranty agreements are unconditionally guaranteed by Gamble-Skogmo, Inc. At January 31, 1967 the uncollected balance of such notes was \$19,187,359 and no installments were delinquent.

The approximate minimum annual rentals under leases in effect at January 31, 1967, exclusive of leases with wholly-owned real estate subsidiaries, amounted to \$13,020,823, which is summarized according to lease expiration periods as follows: fiscal years 1968-1972, \$4,342,610; 1973-1977, \$2,563,996; 1978-1987, \$5,740,441; and subsequently \$373,776. These amounts exclude maintenance costs, real estate taxes, insurance, etc. and increased amounts based on percentages of sales which may be payable in some cases.

- (9) Subsequent event

The Company plans to create a new series of its ten year, 7% subordinated income notes in connection with a tender offer to stockholders of Red Owl Stores, Inc. In the event all outstanding shares of Red Owl Stores, Inc. common stock are offered for exchange, the maximum amount of subordinated income notes to be issued by the Company would approximate \$29,000,000. See Additional Comments in respect to exchange offer on page 13.

Accountants' Report

Peat, Marwick, Mitchell & Co.
Northwestern Bank Building
Minneapolis, Minnesota 55402

The Board of Directors and Stockholders
Gamble-Skogmo, Inc.:

We have examined the consolidated balance sheet of Gamble-Skogmo, Inc. and consolidated subsidiaries as of January 31, 1967 and the related statements of earnings and retained earnings and the statement of source and application of funds for the year then ended. We have also examined the consolidated balance sheet of Gamble Skogmo Acceptance Corporation and subsidiaries as of January 31, 1967. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements present fairly the financial position of Gamble-Skogmo, Inc. and consolidated subsidiaries and of Gamble Skogmo Acceptance Corporation and subsidiaries at January 31, 1967 and the results of operations of Gamble-Skogmo, Inc. and consolidated subsidiaries for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year as restated. Also, in our opinion, the accompanying statement of source and application of funds for the year ended January 31, 1967 presents fairly the information shown therein.

PEAT, MARWICK, MITCHELL & CO.

March 24, 1967

Consolidated Balance Sheet

January 31

Assets	1967	1966
Customer contracts purchased from affiliates (note 2)	\$84,132,023	\$73,985,071
Less portion of purchase price withheld pending collection	6,923,057	6,374,626
Net contracts receivable	<u>77,208,966</u>	<u>67,610,445</u>
Cash	998,521	259,655
Due from affiliates	656,469	7,875
Interest receivable	3,845	3,154
Prepaid expenses, principally, interest	363,174	241,296
Notes receivable, less allowance for doubtful accounts, \$63,202 and \$41,327 at respective dates	807,874	799,163
Unamortized loan expense	86,867	95,511
	<u>\$80,125,716</u>	<u>\$69,017,099</u>
Liabilities and Stockholder's Equity		
Notes payable	\$46,683,789	\$36,355,000
Accrued interest	512,874	511,805
Taxes on income, estimated	362,976	328,556
5% sinking fund notes due 1982	16,000,000	16,000,000
5% subordinated sinking fund notes due 1982	4,000,000	4,000,000
5% subordinated debenture notes due in annual instalments, 1973 through 1983	300,000	300,000
5½% direct loan note due in annual instalments, 1976 through 1980 ...	300,000	300,000
Total liabilities	<u>68,159,639</u>	<u>57,795,361</u>
Stockholder's equity:		
Common stock without par value. Authorized 200,000 shares; issued 85,000 shares at stated value.	9,500,000	9,500,000
Retained earnings—beginning of period	1,721,738	1,153,313
Net earnings	744,339	568,425
Retained earnings—end of period (approximately \$1,400,000 available for dividends at January 31, 1967)	2,466,077	1,721,738
Total stockholder's equity	<u>11,966,077</u>	<u>11,221,738</u>
	<u>\$80,125,716</u>	<u>\$69,017,099</u>

Notes to Consolidated Balance Sheet

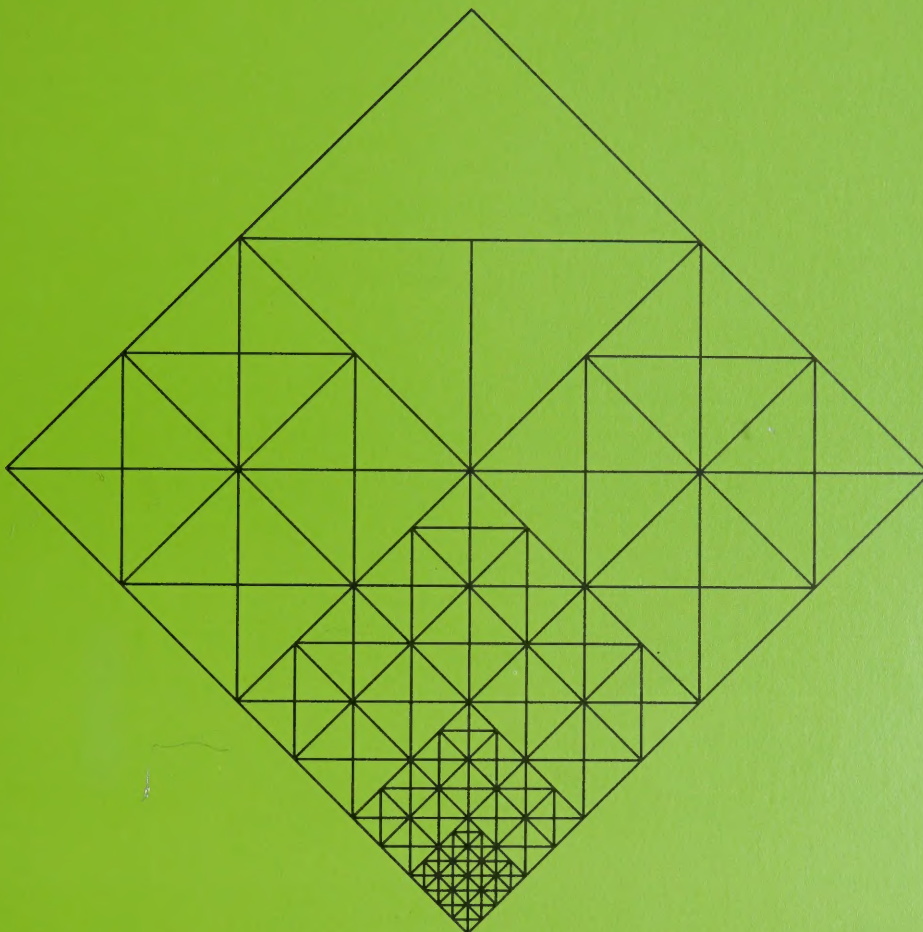
January 31, 1967

(1) Principles of consolidation

The accompanying consolidated balance sheet includes the accounts of Gamble Skogmo Acceptance Corporation and subsidiaries, all of which are wholly-owned.

(2) Receivables

The Company purchases instalment receivables from affiliates (\$60,832,023 at January 31, 1967) under agreements which require it to remit 90% of the face amount, with the balance withheld. As payments are received the reserve is proportionately maintained. At the seller's option, certain past due accounts may be charged against the reserve or the reserve may be increased to include the entire balances of these accounts. Under the agreement with certain affiliates relating to \$23,300,000 of receivables purchased by a subsidiary, Gamble Aldens Credit Corporation, the sellers have the option (but not the obligation) to repurchase defaulted receivables. As the sellers have consistently exercised such option (and it is contemplated that they will continue to do so) the sellers rather than the Company maintain adequate allowances for doubtful accounts on the receivables so sold.



Principal Offices

GAMBLE-SKOGMO, INC.
15 North Eighth Street
Minneapolis, Minnesota 55403

RASCO DIVISION
1840 North Soto Street
Los Angeles, California 90032

MODE O'DAY DIVISION
2130 North Hollywood Way
Burbank, California 91505

GAMBLE MACLEOD LIMITED
1530 Gamble Place
Winnipeg 19, Man., Canada

MACLEODS DIVISION
1530 Gamble Place
Winnipeg 19, Man., Canada

STEDMANS DIVISION
136 Portland Street
Toronto 2B, Ont., Canada

MARSHALL WELLS LIMITED
1395 Ellice Avenue
Winnipeg 19, Man., Canada

ALDENS, INC.
5000 West Roosevelt Road
Chicago, Illinois 60607

GAMBLE SKOGMO ACCEPTANCE
CORPORATION
15 North Eighth Street
Minneapolis, Minnesota 55403

CUSSINS & FEARN CO. INC.
3636 Indianola Avenue
Columbus, Ohio 43214

CLAUDE NEON ADVERTISING LIMITED
4090 Jean Talon Street West
Montreal 9, P. Q., Canada

EISEN MERCANTILE, INC.
5400 Antioch Drive
Merriam, Kansas 66202

GAMBLE-ALDEN SECURITIES INC.
15 North Eighth Street
Minneapolis, Minnesota 55403

GAMBLE-SKOGMO, INC.
15 North Eighth Street
Minneapolis, Minnesota 55403

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